

Mission Focused Funding

Supporting Nonprofit Sustainability in the Tumult of a Recession

An Assessment of The California Wellness Foundation Core Operating Support Grants From 2009 and 2010 Prepared by Harder+Company Community Research **EXECUTIVE SUMMARY**

The Great Recession, which officially ran from late 2007 to mid-2009, has had a strong and lasting effect on many Americans. Communities across the country have struggled to maintain essential supportive services for their residents. Since the beginning of the recession, the social safety net—comprised of a wide range of services that help families and communities in meeting their basic needs—has encountered an increasing demand for services in the face of fewer available resources. According to a 2011 national study of nonprofit executive leaders, many nonprofits nationwide endured a weakened financial position while facing increased demand for services within their communities.¹ Indeed, a longitudinal study conducted with human services nonprofits in Los Angeles County showed that 15 percent of nonprofits surveyed in 2002 were no longer in existence at the time of follow-up in 2011.² In such a dire economic context, nonprofit success can be defined as merely being able to continue to provide services—whereas expanding services, building organizational and financial capacity, or even maintaining current staffing levels often feels unachievable. A 2009 report from the Nonprofit Finance Fund argued that, in order to best address the challenges faced by nonprofits during the Great Recession, funders should identify how to “best help [nonprofits] continue to deliver on the promise of their mission” and provide unrestricted core operating funds to support the programs and services that accomplish that.³

The California Wellness Foundation (TCWF) has been providing core operating support (COS) since 1997 and has become a national leader in the use of COS to sustain and strengthen nonprofits in

- + With a **sustaining services strategy**, TCWF continued funding operational expenses such as administrative expenses, staff salaries, rent, etc.
- + Through a **combined sustaining services and capacity building strategy**, TCWF dedicated funds to strengthening core skills and infrastructure for long term success, such as board development or fund development, alongside its strategy for sustaining services.

¹ Marla Cornelius, Rick Moyers, and Jeanne Bell, *Daring to Lead 2011: A National Study of Executive Director Leadership* (San Francisco: CompassPoint Nonprofit Services and Meyer Foundation, 2011), daringtolead.org. (Accessed September 2011).

² Zeke Hasenfeld, Hyeon Jong Kil, Mindy Chen, and Bill Parent, *Stressed and Stretched: The Recession, Poverty, and Human Services Nonprofits in Los Angeles 2002-2012* (Los Angeles: UCLA Luskin School of Public Affairs, 2011).

³ Nonprofit Finance Fund, “Summary Report: Nonprofit Survey Results,” *2009 State of the Sector Survey* (survey presentation, March 26, 2009), <http://nonprofitfinancefund.org/files/docs/2010/2009SurveySummary.pdf> (accessed August 2010).

the health sector. TCWF's COS strategy follows several principles. First, COS grants are multi-year in order to provide a steady source of revenue and stability. Over time, COS grants also enable organizations to cultivate new funding sources, build internal fundraising capacity, and hire and train staff. Second, COS grantees have the flexibility to use the funds as they see fit so that they meet their grant objectives and, ultimately, fulfill their organizational missions.

In 2008, in recognition of the financial situation faced by nonprofits across California, TCWF identified an opportunity to reinforce its commitment to COS by providing targeted and increased support for health and human services nonprofits throughout California. By 2009, over 80 percent of all TCWF grant funds were awarded for COS grants. TCWF made its 2009 and 2010 COS grants using two approaches: a **sustaining services strategy** and a **combined sustaining services and capacity building strategy**, investing a total of \$139,272,000 for grants active during those two years. TCWF has continued high levels of core support in the aftermath of the Great Recession, with 77 percent of all its grant funds in both 2010 and 2011 going to COS.

Past evaluations of TCWF's COS funding strategy demonstrated that COS has been successful in building organizational sustainability and capacity, as well as helping grantee organizations leverage funds, increase credibility, and build trust with TCWF—but those studies took place during much better economic times. This report was prepared by Harder+Company Community Research to explore the effects of the COS funding strategies under the far more difficult economic circumstances of 2009 and 2010. Of the 581 grantee organizations with active grants in 2009 and/or 2010, 424 responded to the evaluation survey, reflecting a **73 percent response rate**. Through an analysis of TCWF documents and databases, financial data, survey data, and case studies, this report seeks to answer the following evaluation questions:

Evaluation Questions

1. What was the impact of the recession on TCWF grantees?
2. How were the 2009 and 2010 TCWF COS grants used?
 - How do defining characteristics of organizations (size of operating budget and age of organization) inform the uses and effects of COS grants?
3. What was the impact of the 2009 and 2010 COS grants on organizations?
 - What was the impact of COS on organizations that used the grants to sustain organizational functions?
 - What was the impact of COS on organizations that engaged in capacity building activities?

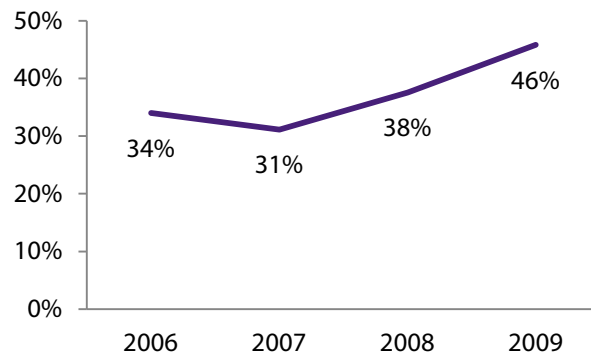
By evaluating the COS grants that were active in 2009 and 2010—years that include the official end of the recession and its immediate aftermath—we were able to identify the effects of this type of funding during a period of major financial strain for most nonprofits. This is a unique opportunity to learn about COS that could inform funding practices now and into the future. The findings from this evaluation reveal that in the midst of the recession, TCWF has supported and even strengthened organizations in a variety of important—and even surprising—ways. This summary highlights key findings, while the full report provides further detail.

Key Findings

- + The recession had a **negative financial impact on** TCWF COS grantee organizations.
- + TCWF COS grants covered **essential organizational costs**.
- + In the face of the recession, TCWF COS **grantees did more with less**.
- + TCWF COS grants **increased organizational capacity**, even during the recession.
- + TCWF COS grants contributed to **increased financial stability and capacity**.
- + Through COS funding, TCWF is able to reach its **grantmaking goals**: to reach underserved populations, promote sustainability, increase public policy efforts, and foster leadership.
- + TCWF COS grantees were able to **increase the visibility and credibility** of their organizations.
- + COS grants enabled TCWF to **strengthen relationships** with grantees.

- + **The recession had a negative financial impact on TCWF COS grantee organizations.** As expected, grantees experienced negative financial impact during and after the recession. The proportion of grantee organizations with operating deficits increased substantially from 34 percent in 2006 to 46 percent in 2009 (among the EIN organizations⁴ examined for this evaluation). A 2009 National Board Governance Survey for Not-for-Profit Organizations found that 87 percent of survey respondents cut expenses, 54 percent reduced personnel, and 49 percent delayed capital projects.⁵ TCWF grantees followed the national trend of decreased funding.

ES1: Grantee EIN Organizations with Operating Deficits, 2006 to 2009 (n=482)



TCWF COS grantees also confirmed that they experienced numerous stresses and challenges as a result of the recession. The most frequently reported major challenges for organizations were the overall

⁴ Tax employer identification number (EIN) organizations.

⁵ Grant Thornton, 2009 *National Board Governance Survey for Not-for-Profit Organizations*, June 30, 2010, <http://www.gt.com/staticfiles/GTCom/Not-for-Profit%20organizations/NFP%20Board%20Governance%20Survey%202009.pdf> (accessed August 2012).

economic downturn (66 percent), decreased state funding (61 percent), and decreased philanthropic giving (60 percent) (data not shown).

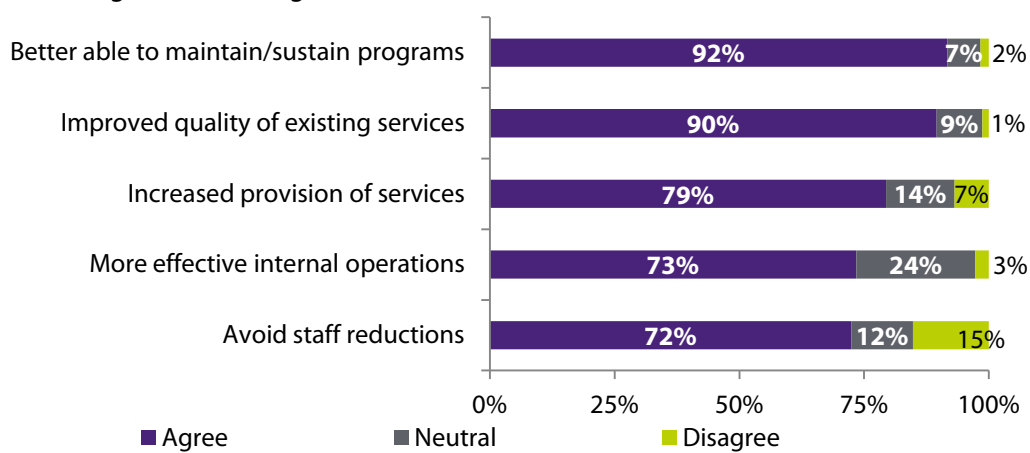
- + TCWF COS grants covered essential organizational costs.** The most common COS funded activities, across both COS grantmaking strategies as reported by survey respondent organizations, included maintaining existing services, programs, or projects; covering operating expenses; and providing salaries for staff. Among other COS funded activities, a higher percentage of capacity building grantees reported using the COS funds to develop their capacity to raise or generate funds, to support staff and board development, and to support strategic planning. They were also more likely to use funding for upgrading information technology, developing marketing plans, supporting the networking of organizations, and developing new services, programs, or projects. Overall, these data demonstrate that survey respondents used COS grants to cover essential organizational costs. Also, as expected, organizations with a combined sustaining services and capacity building strategy successfully accomplished additional activities that were used to further develop capacity within the organization. While the prior findings confirm what might have been expected of TCWF's COS grantees during a recession, additional findings (described below) demonstrate remarkable accomplishments given the financial challenges that these organizations faced during the 2009 and 2010 time period.

"Thanks...to The California Wellness Foundation's Core Operating Support grants, we have seen **many monumental victories.**"

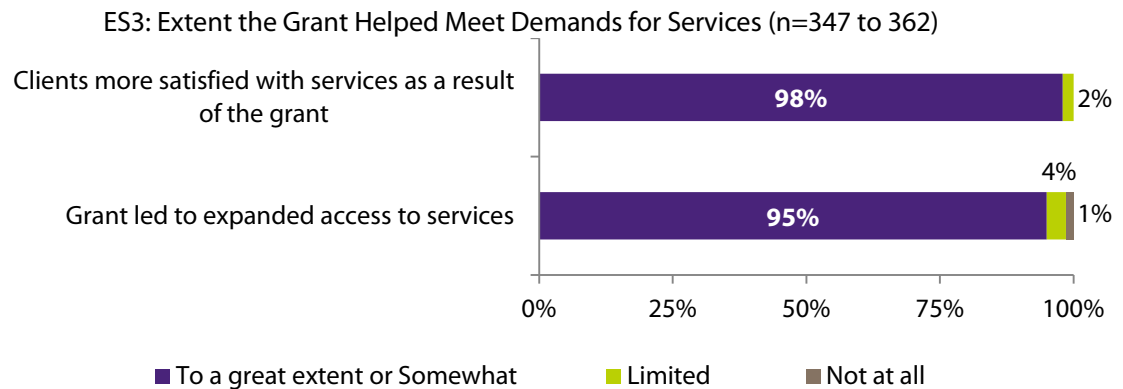
-TCWF COS grantee

- + In the face of the recession, TCWF COS grantees did more with less.** Despite an increase in the proportion of organizations with operating deficits, nearly all survey respondent organizations reported being better able to maintain and sustain activities, services, and programs as a result of their TCWF COS grant (92 percent), while at the same time largely avoiding staff reductions (72 percent). Moreover, in addition to maintaining services and staff, the majority of survey respondents reported *improving* the quality of existing services (90 percent); *increasing* the provision of services as a result of the grant (79 percent); and *increasing* effective internal operations (73 percent).

ES2: Maintaining and Sustaining Staff and Services as a Result of the Grant (n=372 to 407)

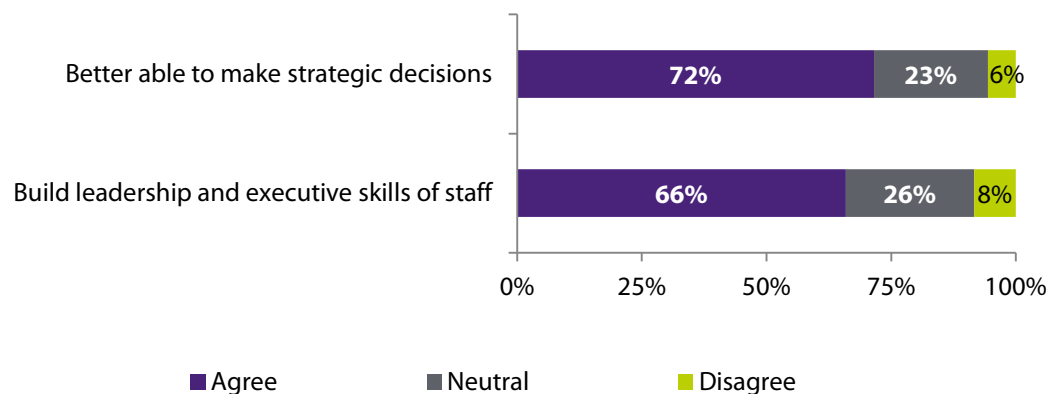


Additionally, organizations reported *expanding* access to services (95 percent) and that clients were more satisfied with services (98 percent).



- + **TCWF COS grants increased organizational capacity, even during the recession.** Through COS funding, TCWF strategically invested in organizations to build their organizational capacity. Notably, across both COS grantmaking strategies, many organizations reported important improvements in organizational capacity. Two-thirds of all survey respondents (66 percent) reported building leadership and executive skills of staff. An even larger majority of survey respondents reported being better able to make strategic decisions (72 percent). These findings are particularly noteworthy given that a study published by the Nonprofit Finance Fund found that only 16 percent of the nonprofits surveyed expected to cover their operating expenses in both 2009 and 2010, and 52 percent anticipated the recession would have a long-term or permanent negative effect on their organization.⁶ Thus while many TCWF COS grantees were able to build organizational capacity, countless other nonprofits around the country were struggling simply to cover operating expenses.

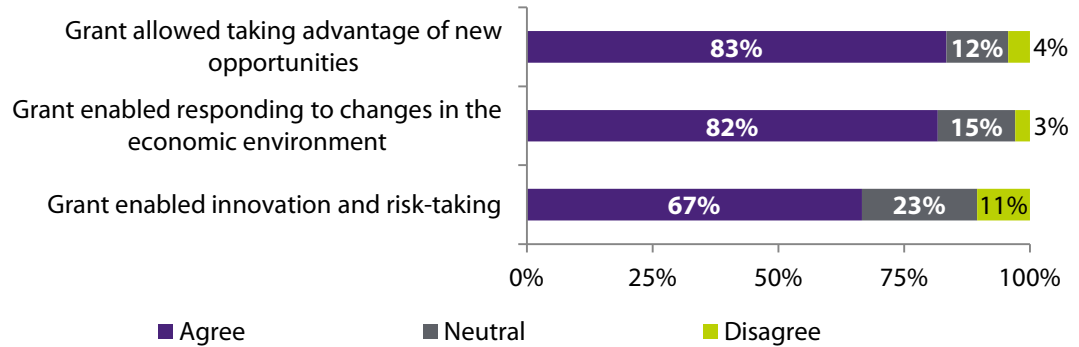
ES4: Organizational Leadership and Staff Skills as a Result of the Grant (n=335 to 341)



Additionally, a majority of survey respondents agreed that the grant enabled them to innovate and take risks (67 percent); take advantage of new opportunities (83 percent); and respond to changes in the economic environment (82 percent).

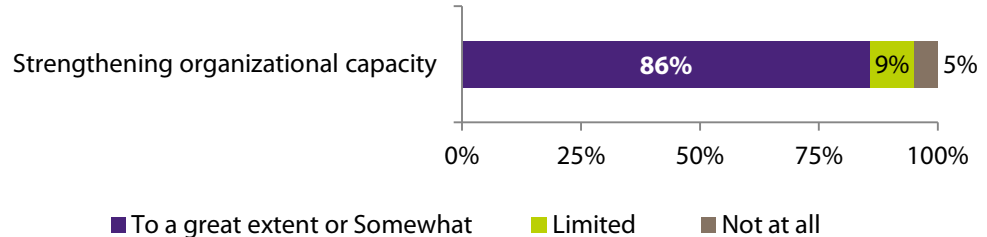
⁶ Nonprofit Finance Fund, 2009 *State of the Sector*.

ES5: Flexibility and Innovation through the TCWF COS Grant (n=362 to 383)



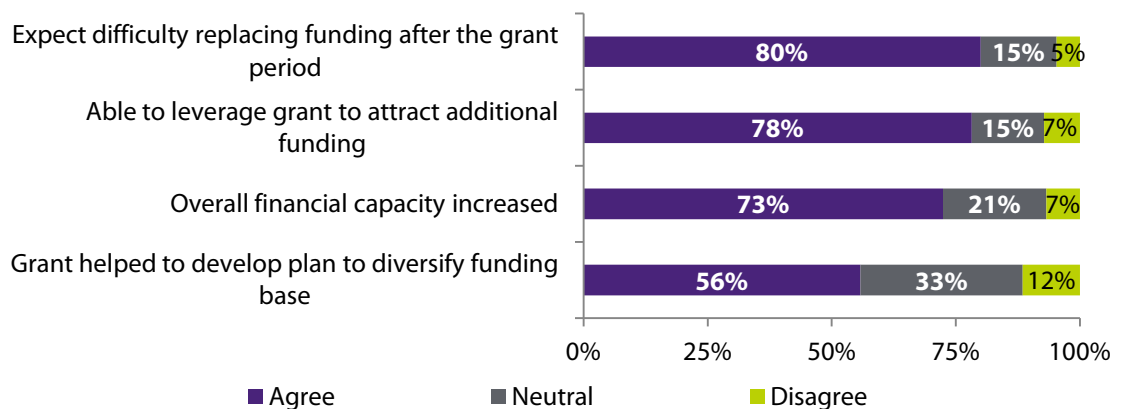
Survey respondents with closed grants also generally indicated long-term positive effects of the grant on strengthening their organizational capacity (86 percent).

ES6: Extent of Closed Grant's Long-term Positive Effects on Strengthening Organizational Capacity (n=183)



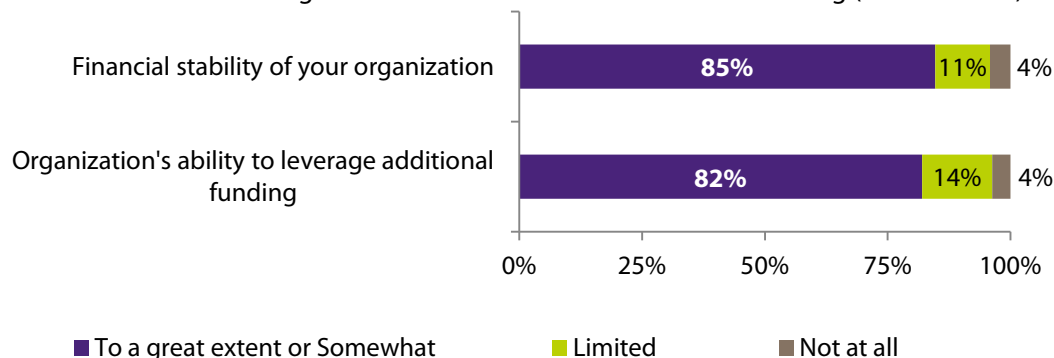
+ TCWF COS grants contributed to increased financial stability and capacity. A majority of survey respondents agreed that, overall, they have increased financial capacity as a result of their TCWF COS grant (73 percent). More than half of all respondents felt that the grant helped them develop a plan to diversify their funding base (56 percent), and over 75 percent of respondents reported that they were able to leverage the grant to attract additional funding. Nonetheless, many respondents anticipated difficulty replacing the TCWF COS funding after the grant period (80 percent).

ES7: Financial Capacity and Planning as a Result of the Grant (n=373 to 406)



Interestingly, survey respondents with closed grants indicated long-term positive effects of the grant on the ability of their organization to leverage additional funding (82 percent), and—perhaps most importantly—the financial stability of the organization (85 percent).

ES8: Extent of Closed Grant's Long-term Positive Effects on Finance and Funding (n=189 to 190)

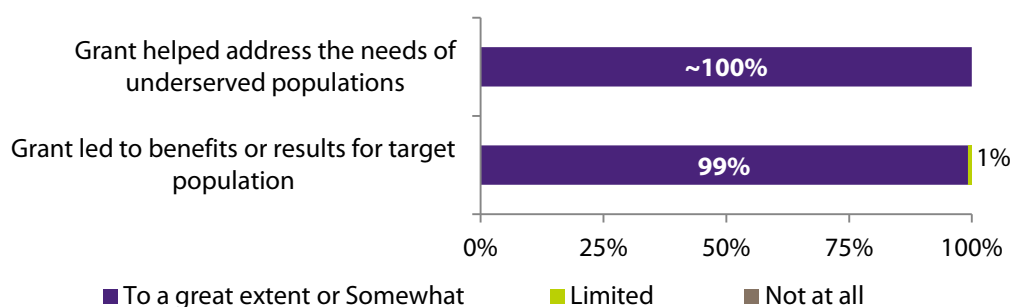


+ Through COS funding, TCWF is able to reach its grantmaking goals. Though COS is the primary way the Foundation addresses its goal of supporting and strengthening nonprofit organizations that work to improve the health of underserved populations, findings in this evaluation demonstrate that the COS funding strategies are also achieving TCWF's other grantmaking goals. The following findings correspond to TCWF's core goals:

- Reach underserved populations.** TCWF aims to address the health needs of traditionally underserved populations, including low-income individuals, people of color, youth, and residents of rural areas. Findings demonstrate that grantee organizations are reaching underserved populations with needed services, which is especially important during difficult economic climates. Nearly all survey respondents indicated that the grant helped them address the needs of underserved populations (~100 percent); led to benefits for their clients or target population (99 percent); and made them better equipped to address the needs of their target populations (93 percent).

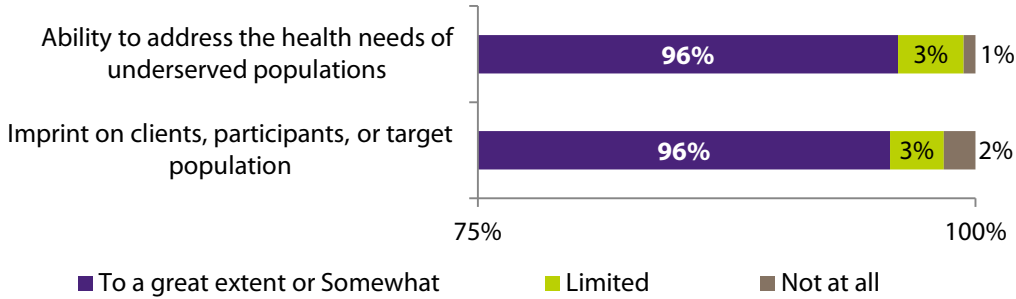
93% of survey respondents indicated that they are **better equipped to address the needs of their target populations** as a result of this grant (n=400).

ES9: Extent the Grant Helped Address Community Needs (n=394 to 400)



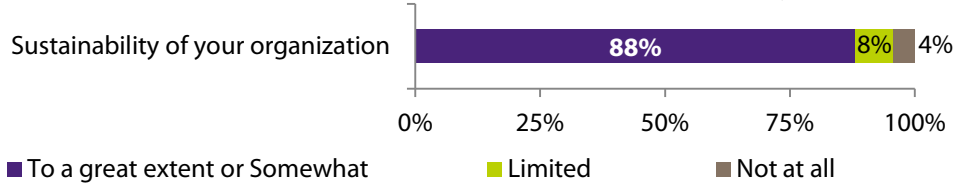
Survey respondents with closed grants noted that the grant had positive effects that remain to this day on clients and target populations (96 percent) and the organizations’ ability to address the health needs of underserved populations (96 percent).

ES10: Extent of Closed Grant’s Long-Term Positive Effects on Addressing Client Needs (n=181 to 185)



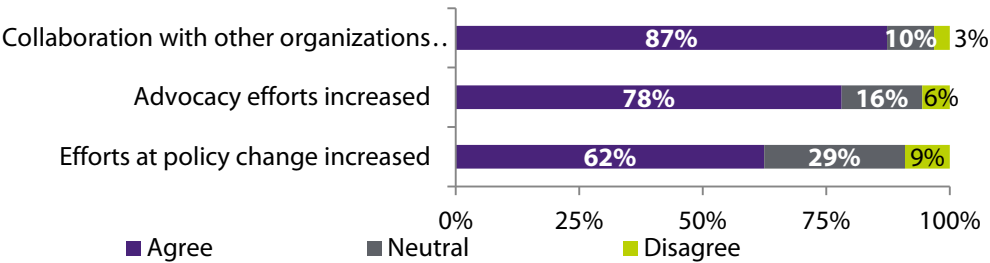
- **Promote sustainability.** As mentioned throughout this report, TCWF aims to support and strengthen nonprofit organizations that work to improve the health of the underserved. A majority (88 percent) of respondents with closed grants noted that the COS had at least some positive effects on the sustainability of their organization beyond the original grant timeframe.

ES11: Extent of Closed Grant’s Long-term Positive Effects on Sustainability (n=184)



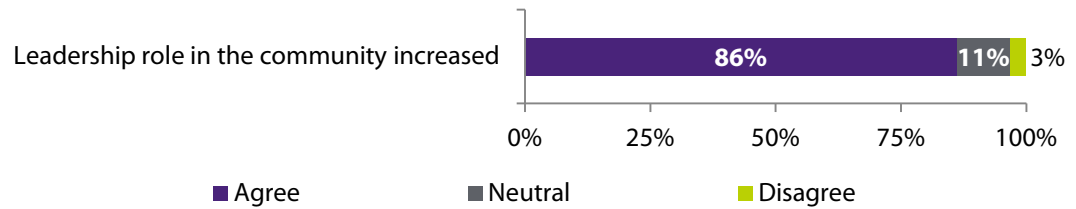
- **Increase public policy efforts.** A quarter of grantee organizations were awarded COS grants that also addressed TCWF’s public policy cross-cutting theme. A majority of survey respondents, including those who were not categorized by TCWF as public policy COS grantees, reported increases in advocacy efforts (78 percent) and efforts at policy change (62 percent). Nearly 90 percent of survey respondents reported increased collaboration as a result of their COS grants.

ES14: Changes in Collaboration, Advocacy, and Policy Change Efforts as a Result of the Grant (n=330 to 378)



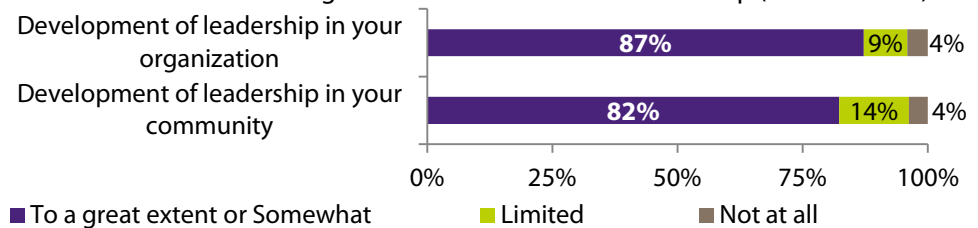
- **Foster leadership.** Many respondents (86 percent) indicated that their organization's leadership role in the community increased.

ES12: Leadership Role as a Result of the Grant (n=375)



Survey respondents with closed grants reported that the TCWF COS grant had at least some long-term positive effects regarding leadership development in the community (82 percent) and within the organization (87 percent).

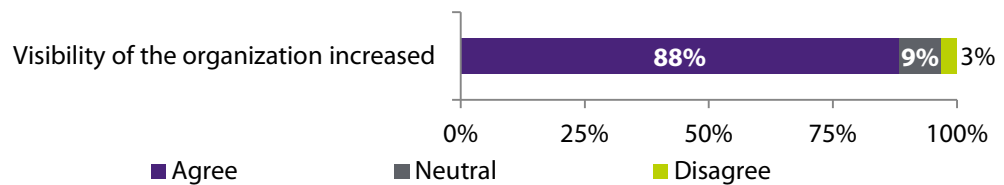
ES13: Extent of Closed Grant's Long-term Positive Effects on Leadership (n=158 to 172)



+ TCWF COS grantees were able to increase the visibility and credibility of their organizations.

Most survey respondents reported that overall they have increased the visibility of their organization as a result of the TCWF COS grant (88 percent).

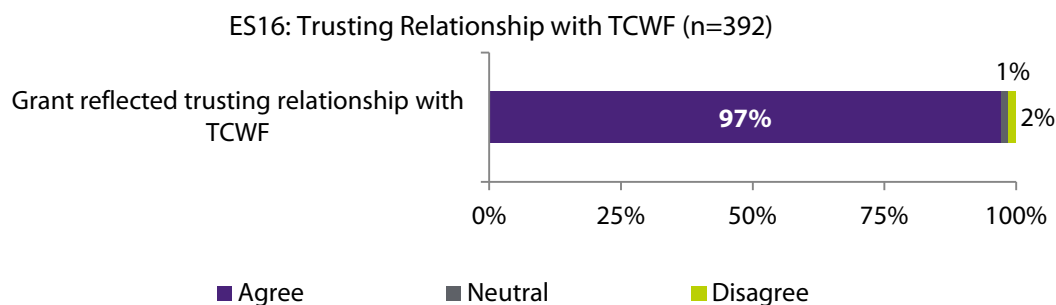
ES15: Visibility as a Result of the Grant (n=387)



Through open-ended survey responses, grantees also noted improved credibility and relationships with other organizations, as well as overall visibility, as long-term effects of their COS grant. In the words of one survey respondent organization, "TCWF COS has made the community aware of who we are and we are looked upon as a source of information and help."

"[Our] mission is to train community leaders – congregants – and to achieve concrete policy and institutional change, [and the TCWF COS grant] has allowed us to do this."
-TCWF COS grantee

- + **COS grants enabled TCWF to strengthen relationships with grantees.** Through core operating support, TCWF seeks to provide organizations with flexible funding that encourages nonprofits to be strategic in addressing challenges and that fosters creative solutions. This approach not only supports organizational sustainability, but also builds trust between TCWF and grantee organizations. TCWF was able to develop trusting relationships with COS grantees. Fully 97 percent of survey respondents reported that the grant reflected a trusting relationship with TCWF.



"[TCWF] is in the **top tier as far as interacting with their grantees**, interacting with [their] functions, and understanding what their mission is."
-TCWF COS Grantee

Core Operating Support provides distinct benefits by **building the organizational and financial core** that nonprofits need to sustain and improve their services.

The Great Recession threw the once-thriving nonprofit sector in a downward spiral that left many people without services. As reported by the Wall Street Journal and many other news sources, numerous nonprofits across the nation and in California were hit by significant reductions in donations and government funding.⁷ Many of them undertook cost-cutting measures, sometimes even having to close their doors.

In light of these circumstances, this evaluation demonstrates that TCWF's COS grants have assisted organizations not only to continue to operate but to accomplish remarkable improvements. Grantees were not only able to navigate the most challenging economic period since the Great Depression, but also to maintain needed services, increase organizational capacity, and to a lesser degree, increase financial capacity. Organizations have largely been able to maintain the staff that provide these services, and as evidenced in these findings, provide essential health and supportive services to the underserved. For nonprofits, being able to maintain core services means being able to achieve their missions—and TCWF COS grants have successfully supported many such nonprofits throughout California in doing just that.

⁷ Shelly Banjo and S. Mitra Kalita, "Once-Robust Charity Sector Hit With Mergers, Closings," *The Wall Street Journal*, February 2, 2010, <http://online.wsj.com/article/SB10001424052748704586504574654404227641232.html> (accessed August 2012).

Moreover, the lessons learned from TCWF’s experience with COS can—and should—be considered in light of grantmaking practices nationwide. In the 2011 national study of grantmaking practices, Grantmakers for Effective Organizations⁸ noted that 80 percent of grantmakers report including some level of general operating support⁹ in their grantmaking portfolios. But, among those grantmakers, the actual amount of general operating support makes up, on average, only 20 percent of their overall grantmaking budget. Given the increasing demands on the nonprofit sector, particularly those that make up the social and health safety net, this level of commitment to COS funding is not sufficient. COS provides distinct benefits by building the organizational and financial core that nonprofits need to sustain and improve their services. TCWF understands the importance of funding this kind of work, and the insights from this evaluation may be able to help other funders understand the value of COS for nonprofits.

As the country slowly emerges from the Great Recession, the nonprofit health sector is at a turning point. The social safety net continues to be strained, not just in the short-term, but perhaps for many years to come. Federal and state funding continues to decrease, while families and communities across California continue to need the broad range of services the social safety net provides. Findings in this report present a strong case that COS grants provide mission focused funding that allows organizations, despite challenging economic times, to continue to serve diverse communities by providing essential health services and working towards public policy that promotes health.

⁸ McCray, J., *Is Grantmaking Getting Smarter?* (Washington, DC: Grantmakers for Effective Organizations and TCC Group, 2011).

⁹ For purposes of this report, we are using “general operating support” and “core operating support” interchangeably.